

**NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OR ALL OF THE FOLLOWING INFORMATION FROM ANY INSTRUMENT THAT TRANSFERS AN INTEREST IN REAL PROPERTY BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.**

**NO SURFACE USE  
PAID UP OIL AND GAS LEASE**

THIS LEASE AGREEMENT is made as of the 3 day of April 2008, between

**Nancy E. Reid**

as Lessor (whether one or more) whose address is: 3605 Cattlebaron Drive Roanoke, TX 76262  
and HILLWOOD ENERGY, L.P., as Lessee whose address is 13600 Heritage Parkway, Suite 200,  
Fort Worth, Texas 76177. All printed portions of this lease were prepared by Lessee, but all other provisions  
(including the completion of blank spaces) were prepared jointly by Lessor and Lessee.

**1. Grant and Description.** In consideration of an adequate cash bonus in hand paid and the covenants herein contained, Lessor hereby grants, leases and lets exclusively to Lessee the following described land, hereinafter called leased premises:

**Lot 3, Block 2, Lost Spurs Addition, an Addition to the City of Fort Worth, Tarrant County, Texas, according to the Plat recorded thereof in Cabinet A, Slide 5742, Plat Records, Tarrant County, Texas.**

in the County of Tarrant, State of Texas, containing 0.155 gross acres, more or less (including any interests therein which Lessor may hereafter acquire by reversion, prescription or otherwise), for the purpose of exploring for, developing, producing and marketing oil and gas, along with all hydrocarbon and nonhydrocarbon substances produced in association therewith. For purposes of this Lease, "oil and gas" means oil, gas and other liquid and gaseous hydrocarbons and their constituent elements produced through a well bore. "Oil" includes all condensate, distillate and other liquid and gaseous hydrocarbons produced through a well bore. "Gas" includes helium, carbon dioxide and other commercial gases, as well as hydrocarbon gases; (the leased substances). Expressly excluded from this Lease are lignite, coal, sulfur and other like minerals. In addition to the above described leased premises, this lease also covers accretions and any small strips or parcels of land now or hereafter owned by Lessor which are contiguous or adjacent to the above described leased premises. For the purpose of determining the amount of any shut-in royalties hereunder, the number of gross acres above specified shall be deemed correct, whether actually more or less.

**2. Term of Lease.** This lease, which is a "paid up" lease without rentals, shall be in force for a primary term of three (3) years from the date hereof, and for as long thereafter as "the leased substances" are produced from the leased premises or from lands pooled therewith or this lease is otherwise maintained in effect pursuant to the provisions hereof.

**3. No Rentals.** Lessor accepts the bonus as lump sum consideration for this lease and all rights and options hereunder, and this lease shall remain in force for the entire primary term without the payment of rentals and without regard to operations or production, if any.

**4. Royalty Payment.** Royalties on the leased substances produced and saved hereunder shall be paid by Lessee to Lessor as follows: (a) For oil, and other liquid hydrocarbons separated at Lessee's separator facilities, the royalty shall be Twenty-two and one-half percent (22.50 %) of such production, to be delivered to Lessor at the wellhead or to Lessor's credit at the oil purchaser's transportation facilities, less lessor's proportionate part of ad valorem taxes and production, severance or other taxes and the actual costs incurred by Lessee in delivering such oil or other liquid hydrocarbons for sale, provided that Lessee shall have the continuing right to sell such production to itself or an affiliate at the wellhead market price then prevailing in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is such a prevailing price) for production of similar grade and gravity; (b) for gas (including casinghead gas) and all other substances covered hereby, the royalty shall be Twenty-two and one-half percent (22.50 %) of the proceeds realized by Lessee from the sale thereof, less lessor's proportionate part of ad valorem taxes and production, severance, or other taxes and the actual costs incurred by Lessee in delivering such gas or other substances, and such costs as are necessary to make such gas marketable at the wellhead, provided that Lessee shall have the continuing right to sell such production to itself or an affiliate at the prevailing wellhead market price paid for production of similar quality in the same field (or if there is no such price then prevailing in the same field, then in the nearest field in which there is a prevailing price) pursuant to comparable purchase contracts entered into on the same or nearest preceding date as the date on which Lessee commences its purchases hereunder; and (c) if after the primary term one or more wells on the leased premises or lands pooled therewith are capable of producing oil or gas or other substances covered hereby, but such well or wells are either shut-in or production therefrom is not being sold by Lessee, such well or wells shall nevertheless be deemed to be producing in paying quantities for the purpose of maintaining this lease. If for a period of 90 consecutive days such well or wells are shut in or production therefrom is not sold by Lessee, then Lessee shall pay an aggregate shut-in royalty of one dollar per acre then covered by this lease, such payment to be made to Lessor or to Lessor's credit in the Pay direct to Lessor(s) at address provided herein Bank at , or its successors, which shall be Lessor's depository agent for receiving such payments regardless of changes in the ownership of the leased premises, and payment or tender to the depository, or to Lessor at Lessor's last known address, will be deemed properly and timely made if deposited in the U.S. mails on or before the end of said 90-day period and thereafter on or before each anniversary of the end of said 90-day period, limited to a maximum of two (2) consecutive years, while the well or wells are shut-in or production therefrom is not being sold by Lessee; provided that if this lease is otherwise being maintained, no shut-in royalty shall be due while there are operations or production, as the case may be, on the leased premises or lands pooled therewith. Lessee's failure to properly pay shut-in royalty shall render Lessee liable for the amount due, but shall not operate to terminate this lease.

**5. Operations.** If, after the expiration of the primary term, Lessee drills a well which is incapable of producing in paying quantities (hereinafter called "dry hole") on the leased premises or lands pooled therewith, or if all production ceases from any cause, including a revision of unit boundaries pursuant to the provisions of Paragraph 6 or the action of any

governmental authority, then in the event this lease is not otherwise being maintained in force it shall nevertheless remain in force if Lessee commences further operations for reworking an existing well or for drilling an additional well or for otherwise obtaining or restoring production on the leased premises or lands pooled therewith within 90 days after completion of operations on such dry hole or within 90 days after such cessation of all production. If, at any time and from time to time, at the time of the expiration of, or after the primary term, this lease is not otherwise being maintained in force, but Lessee is then engaged in drilling, reworking or any other operations to obtain or restore production therefrom, this lease shall remain in force so long as any one or more of such operations are prosecuted with no cessation of more than 90 consecutive days, and if any such operations result in production of oil or gas or other substances covered hereby, as long thereafter as there is production in paying quantities from the leased premises or lands pooled therewith. After completion of a well capable of producing in paying quantities hereunder, Lessee shall drill such additional wells on the leased premises or lands pooled therewith as a reasonably prudent operator would drill under the same or similar circumstances to (a) develop the leased premises as to formations then producing in paying quantities on the leased premises or lands pooled therewith, or (b) protect the leased premises from uncompensated drainage by any well or wells located on other lands not pooled therewith. There shall be no covenant to drill exploratory wells or any additional wells except as expressly provided herein. It is the intent hereof, and it is controllingly so provided, that, should this lease otherwise terminate, it shall nevertheless remain in full force and effect as to the governmental spacing or proration unit assigned to each and every well located on the leased premises, or lands pooled therewith, which is then capable of producing leased substances for so long as such well either continues to be capable of producing leased substances or other provisions of this Paragraph 5 are applicable.

**6. Pooling.** Lessee shall have the right but not the obligation to pool all or any part of the leased premises or any interest therein with any other lands or interests, as to any or all depths or zones, and as to any or all substances covered by this lease, either before or after the commencement of production, whenever Lessee deems it necessary or proper to do so in order to prudently develop or operate the leased premises, whether or not similar pooling authority exists with respect to such other lands or interests. The unit formed by such pooling for an oil well (other than a horizontal completion) shall not exceed 80 acres plus a maximum acreage tolerance of 10%, and for a gas well or a horizontal completion shall not exceed 640 acres plus a maximum acreage tolerance of 10%; provided that a larger unit may be formed for an oil well or gas well or horizontal completion to conform to any well spacing or density pattern that may be prescribed or permitted by any governmental authority having jurisdiction to do so or for the purpose of obtaining a greater allowable rate of production pursuant to any applicable law or regulation. For the purpose of the foregoing, the terms "oil well" and "gas well" shall have the meanings prescribed by applicable law or the appropriate governmental authority, or, if no definition is so prescribed, "oil well" means a well with an initial gas-oil ratio of less than 100,000 cubic feet per barrel and "gas well" means a well with an initial gas-oil ratio of 100,000 cubic feet or more per barrel, based on a 24-hour production test conducted under normal producing conditions using standard lease separator facilities or equivalent testing equipment; and the term "horizontal completion" shall mean an oil well or gas well in which the horizontal component of the gross completion interval in the reservoir exceeds one hundred feet in length. In exercising its pooling rights hereunder, Lessee shall file of record a written declaration describing the unit and stating the effective date of pooling. Production, drilling or reworking operations or the existence of a well capable of producing leased substances anywhere on a unit which includes all or any part of the leased premises shall be treated as if it were production, drilling or reworking operations or a well capable of producing leased substances on the leased premises, except that the production on which Lessor's royalty is calculated shall be that proportion of the total unit production which the net mineral acreage covered by this lease and included in the unit bears to the total gross acreage in the unit, but only to the extent such proportion of unit production is sold by Lessee. Pooling in one or more instances shall not exhaust Lessee's pooling rights hereunder, and Lessee shall, without the joinder of Lessor, have the recurring right but not the obligation to revise any unit formed hereunder by expansion or contraction or both, either before or after commencement of production, in order to conform to the well spacing or density pattern or acreage allowable formula prescribed or permitted by the governmental authority having jurisdiction, or to conform to any productive acreage determination made by such governmental authority. In making such a revision, Lessee shall file of record a written declaration describing the revised unit and stating the effective date of revision. If the relative acreage contributions of the tracts in the unit are changed by virtue of such revision, the proportion of unit production on which royalties are payable hereunder shall thereafter be adjusted accordingly. If Lessee deems it advisable in order to promote further development of any part of a unit area, or if production from the unit has ceased, Lessee may terminate the unit by filing of record a written declaration describing the unit and the effective date of termination shall be the date of filing unless provided otherwise in such declaration. Pooling hereunder shall not constitute a cross-conveyance of interests. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interest as between any such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but Lessee shall nevertheless have the right to pool as provided above with consequent allocation of production as above provided. As used in this paragraph 6, the words "separate tract" means any tracts with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

**7. Proportionate Reductions.** If Lessor owns less than the full mineral estate in all or any part of the leased premises, royalties and shut-in royalties for any well on any part of the leased premises or lands pooled therewith shall be reduced to the proportion that Lessor's interest in such part of the leased premises bears to the full interest in the royalties in such part of the leased premises.

**8. Ownership Changes.** The interest of either Lessor or Lessee hereunder may be assigned, devised or otherwise transferred in whole or in part, by area and/or by depth or zone, and the rights and obligations of the parties hereunder shall extend to their respective heirs, devisees, executors, administrators, successors and assigns. No change in Lessor's ownership shall have the effect of reducing the rights or enlarging the obligations of Lessee hereunder, and no change in ownership shall be binding on Lessee until 60 days after Lessee has been furnished the original or duly authenticated copies of the documents establishing such change of ownership to the satisfaction of Lessee. In the event of the death of any person entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to the credit of decedent or decedent's estate in the depository designated above. If at any time two or more persons are entitled to shut-in royalties hereunder, Lessee may pay or tender such shut-in royalties to such persons or to their credit in the depository, either jointly or separately in proportion to the interest which each owns. If Lessee transfers its interest hereunder in whole or in part, Lessee shall be relieved of all payments and obligations thereafter arising with respect to the transferred interest, and failure of the transferee to satisfy such obligations with respect to the transferred interest shall not affect the rights of Lessee with respect to any interest not so transferred. If Lessee transfers a full or undivided interest in all or any portion of the area covered by this lease, the obligation to pay or tender shut-in royalties hereunder shall be divided between Lessee and the transferee in proportion to the net acreage interest in this lease then held by each.

**9. Release of Lease.** Lessee may, at any time and from time to time, deliver to Lessor or file of record a written release of this lease as to full or undivided interest in all or any portion of the area covered by this lease or any depths or zones thereunder, and shall thereupon be relieved of all obligations thereafter arising with respect to the interest so released. If Lessee releases less than all of the interest or area covered hereby, Lessee's obligation to pay or tender shut-in royalties shall be proportionately reduced in accordance with the acreage interest retained hereunder.

**10. Waiver of Surface Use.** Notwithstanding anything to the contrary in this Lease, Lessee shall not enter upon the surface of, cross over, place any structure or building upon or conduct any operations (including but not limited to drilling, roads, drilling pads, pipelines, production equipment, flowlines, and geophysical/seismic operations) on the leased premises. Any production from the leased premises shall be by way of pooling and/or unitization as provided herein, or by directional drilling from a surface location on other lands and bottomed under the leased premises. Any direction drilling must penetrate the Land sufficiently below the surface as to not interfere with the present or future use of the surface of the Land for commercial or residential use and in no event may the direction drilling penetrate the Land less than 200 feet below the surface. A direction well drilled under this provision shall be considered to be located on the land. Lessee shall make all reasonable efforts to comply with the Gas Drilling Ordinance of the City of Fort Worth and shall avoid use of any residential or neighborhood streets in developing the leased premises or any lands pooled therewith.

**11. Regulation and Delay.** Lessee's obligations under this lease, whether express or implied, shall be subject to all applicable laws, rules, regulations and orders of any governmental authority having jurisdiction, including restrictions on the drilling and production of wells, and regulation of the price or transportation of oil, gas and other substances covered hereby. When drilling, reworking, production or other operations are prevented by a governmental order or by fire, flood, extremely adverse weather conditions, war, sabotage, rebellion, insurrection, riot, strike or labor disputes, or by any other cause not possibly within Lessee's control, this lease shall remain in force during the continuance of such prevention or delay, and Lessee shall have 45 days after the removal of such prevention or delay within which to commence or resume drilling, reworking, production or other operations. Lessee shall not be liable for breach of any express or implied covenants of this lease when drilling, production or other operations are so prevented, delayed or interrupted.

**12. Breach or Default.** No litigation shall be initiated by Lessor with respect to any breach or default by Lessee hereunder, until at least 90 days after Lessor has given Lessee written notice fully describing the breach or default, and then only if Lessee fails to remedy the breach or default within such period. Nothing in this instrument or in the relationship created hereby shall be construed to establish a fiduciary relationship, a relationship of trust or confidence or a principal - agent relationship between Lessor and Lessee for any purpose.

**13. Warranty of Title.** Lessor hereby warrants and agrees to defend title conveyed to Lessee hereunder, and agrees that Lessee at Lessee's option may pay and discharge any taxes, mortgages or liens existing, levied or assessed on or against the leased premises. If Lessee exercises such option, Lessee shall be subrogated to the rights of the party to whom payment is made, and, in addition to its other rights, may reimburse itself out of any royalties or shut-in royalties otherwise payable to Lessor hereunder. In the event Lessee is made aware of any claim inconsistent with Lessor's title, Lessee may suspend the payment of royalties and shut-in royalties hereunder, without interest, until Lessee has been furnished satisfactory evidence that such claim has been resolved.

**14. Unitization.** Lessee shall have the right but not the obligation to commit all or any part of the leased premises or interest therein to one or more unit plans or agreements for the cooperative development or operation of one or more oil and/or gas reservoirs or portions thereof, if in Lessee's judgment such plan or agreement will prevent waste and protect correlative rights, and if such plan or agreement is approved by the federal, state or local governmental authority having jurisdiction. When such a commitment is made, this lease shall be subject to the terms and conditions of the unit plan or agreement, and Lessor agrees to execute any such documents or agreements as Lessee may reasonably request in furtherance of such commitment.

**IN WITNESS WHEREOF,** this lease is executed to be effective as of the date first written above, but upon execution shall be binding on the signatory and the signatory's heirs, devisees, executors, administrators, successors and assigns, whether or not this lease has been executed by all parties hereinabove named as Lessor.

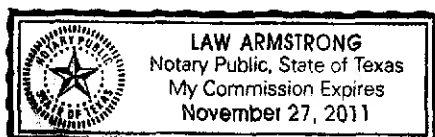
  
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Nancy E. Reid

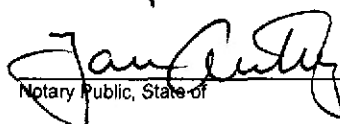
ACKNOWLEDGMENT

STATE OF TEXAS }  
COUNTY OF Tarrant }

This instrument was acknowledged before me on the 3rd day of April, 2008,  
by Nancy E. Reid

(SEAL)



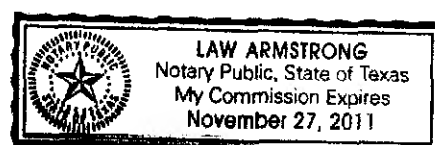
  
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Notary Public, State of

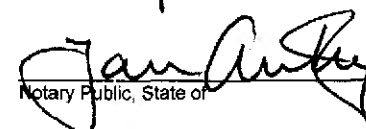
ACKNOWLEDGMENT

STATE OF TEXAS }  
COUNTY OF Tarrant }

This instrument was acknowledged before me on the 3rd day of April, 2008,  
by

(SEAL)



  
\_\_\_\_\_  
Notary Public, State of



CARLA PETROLEUM  
1320 S UNIVERSITY  
#405  
FT WORTH TX 76107  
Submitter: GRANT D GREEN

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